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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

REVISED BUDGET ESTIMATES FOR THE BIENNIUM 1992-1993

Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with regulation 9.5 of the Financial Regulations of UNDP, the Advisory Committee on Administrative and Budgetary Questions has considered revised budget estimates for 1992-1993 as contained in document DP/1992/40. The Committee also considered the Administrator's report on the Commonwealth of Independent States and the Baltic States (DP/1992/51) which contains budgetary implications for the 1992-1993 budget in addition to those contained in document DP/1992/40. In accordance with Financial Regulation 5.1, the Committee has also considered a report on trust funds established by the Administrator in 1991 (DP/1992/38/Add.2). The Committee also had before it a number of other reports referred to in document DP/1992/40.

I. REVISED BUDGET ESTIMATES FOR 1992-1993 (DP/1992/40)

2. As shown in table A of the Administrator's report (DP/1992/40), and summarized below, the Administrator's revised estimates for the organization as a whole amount to $606,872,700 gross, representing a decrease of $4,521,300. Income is estimated at $32,000,000; therefore the net revised estimates, which do not take into account the Administrator's proposals in document DP/1991/51 for an additional $8.25 million (see paras. 30-40 below), amount to $574,872,700:

Source of funds	1992-1993 appropriation	Revised estimates (DP/1992/40)	Increase/ decrease
	(in thousands of US dollars)		
A. UNDP core activities (gross)	482 224.1	478 092.5 a/	(4 131.6)
Estimated income	32 000.0	32 000.0	-
UNDP core activities (net)	450 224.1	446 092.5 a/	(4 131.6)
B. Programme support and development activities	100 322.9	100 286.3	(36.6)
C. Resources of Trust Funds	28 847.0	28 493.9	(353.1)
TOTAL NET	579 394.0	574 872.7 a/	(4 521.3)

a/ Does not include the additional $8.25 million proposed in document DP/1992/51.

3. The Advisory Committee notes that the net decrease of $4,521,300, which, as mentioned, does not take into account the additional requirements of $8.25 million proposed in document DP/1992/51, is attributable to the following:

	Thousands of dollars
Volume increase	2 509.9 a/
Currency	(8 222.1)
Inflation	(1 577.0)
Cost adjustments	2 767.9
TOTAL	(4 521.3)

a/ Comprising $549,800 for UNDP core headquarter activities and $1,960,100 for OPS.

4. The Administrator briefly discusses currency, inflation and cost adjustments in paragraphs 7-10 of his report; as mentioned therein and shown in table A of his DP/1992/40, these adjustments relate not only to the core budget but also to the Programme support and development activities appropriation lines and to the resources of the trust funds. In paragraphs 11-15 the Administrator seeks the Council's approval for the volume increase of $549,800 for UNDP core activities. As explained therein, that amount relates in its entirety to the Administrator's proposal to extend through end 1993 the two posts (one D-2 and one P-5) for the Humanitarian Programme, approved for one year by the Council in its decision 91/46.

5. As stated in paragraph 13 of DP/1992/40, the General Assembly adopted resolution 46/182 on the strengthening of the coordination of humanitarian emergency assistance of the United Nations. The Advisory Committee recalls that the resolution, inter alia underlined the need of involving development assistance organizations in humanitarian assistance at an early stage and reiterated the coordination role of the resident coordinator. In this connection, the Administrator, in paragraph 14 of DP/1992/40 states that as the involvement of UNDP field offices in supporting resident coordinators in emergency operations has deepened, so too has the need for headquarters to provide them with focused and professional support; hence the request to continue the staffing arrangements previously approved for one year, through end 1993.

6. In this connection, the Administrator emphasized to the Advisory Committee that, as called for in resolution 46/182, he is in close consultation with the Under-Secretary-General for Humanitarian Affairs; he also stressed that, in his opinion, the maintenance of the existing arrangements in New York through the end of 1993 will facilitate the collaboration and support called for in the same resolution. In this connection, the Advisory Committee recalls that General Assembly resolution 46/182 calls for the high-level emergency relief coordinator designated by the Secretary-General to maintain close contact with and provide leadership to the resident coordinators on matters relating to humanitarian assistance. In the view of the Advisory Committee, the continuation of the arrangements proposed by the Administrator through end 1993 should facilitate that contact pending the development of future modalities in this regard, which according to the Administrator, are being currently worked out.

7. Part III of DP/1992/40 (paras. 44-60) deals with the Office for Project Services (OPS), including a discussion of both the revised core budget and the extrabudgetary estimates. As shown in paragraph 3 above and in table A of DP/1992/40, a volume increase of $1,960,100 is proposed for the OPS core budget. Of that amount, $1.2 million relate to seven additional core posts; as explained in paragraphs 51-52, the Administrator has established four posts (two Professional and two General Service) and is proposing to establish three additional General Service posts effective 1 July 1992.

8. The balance of the volume growth for the core budget of OPS, i.e. $760,100, relates to the Administrator's proposal for improved management information systems. As explained in paragraphs 58-59 of his report, the

Administrator is requesting $1.4 million for this project; the Committee was informed that $760,100 would be charged to the core budget and the balance would be covered by the extrabudgetary element.

9. As explained in paragraphs 53-54, the Administrator has established 16 extrabudgetary posts in OPS (3 Professional and 13 General Service), including two which are located in the field. The Advisory Committee notes that four of the General Service posts "are in lieu of the subcontracting mechanism proposed in the revised budget estimates for 1990-1991 and budget estimates for 1992-1993 (DP/1991/49 and Corr.1)". The Committee further notes from paragraph 55 that this has been done "because of the practical problems that have occurred in the implementation of the original proposal" in that "subcontract personnel display a very high rate of turnover as a result of their contractual status", with a consequent loss of efficiency and effectiveness.

10. The Advisory Committee notes that the activities and growth of OPS are discussed at greater length in annex 3 of document DP/1992/45 on the senior management structure of UNDP. As noted therein, "in order to control and manage the growth of its portfolio, as well as to introduce a check mechanism from the point of view of experienced project management, OPS adopted in October 1991 a selective project acceptance policy". According to the Administrator, following the adoption of this new policy, a number of projects presented to OPS were referred to Governments for national execution or to the United Nations agencies. The Advisory Committee also notes that "OPS has renewed its efforts to utilize the technical expertise of the agencies for the implementation of components of OPS executed projects".

11. The Advisory Committee welcomes the above development and trusts that this will lead to improved burden sharing among the entities of the system. In this connection, the Committee is also of the view that, notwithstanding the statement that "OPS can be chosen for a project that is not fully within the sectoral area of competence of another United Nations executing agency and in particular if the project is multi-sectoral" (DP/1992/45, annex 3), other agencies could also be chosen to implement multi-sectoral projects. The Committee therefore urges the Administrator, in applying the above-mentioned new acceptance policy, to continue his efforts to ensure the necessary coordination, cooperation and involvement with executing agencies.

12. As noted above, the volume changes proposed in document DP/1992/40 relate to UNDP core activities and OPS. As shown in table A of DP/1992/40, no volume change is proposed for the Inter-Agency Procurement Services Office (IAPSO); however, as stated in paragraph 61, "the Administrator believes it appropriate to report to the Governing Council on the rapid expansion of extrabudgetary activities by IAPSO". In this connection, he notes that the 1992-1993 initial estimates included an estimate of $2.5 million for IAPSO extrabudgetary activities; the current estimate is $2.7 million and the expansion of procurement activities has been confirmed as discussed. Accordingly he has decided to regularize 12 temporary extrabudgetary positions by establishing them as extrabudgetary posts. The Advisory Committee notes that "before

regularizing any further extrabudgetary positions, the Administrator intends to conduct a management review to determine appropriate staffing levels".

13. Section II of the Administrator's report discusses the budget strategy which he is considering in respect of 1994-1995; as stated in paragraph 18, it comprises two basic elements: further administrative cost reduction and increased transparency regarding the nature of the services rendered by UNDP field offices to non-UNDP-financed programmes and the associated costs thereof.

14. As stated in paragraph 16 of DP/1992/40, the Governing Council, in its decision 91/46, while congratulating the Administrator on his efforts to apply a restrictive budget policy, requested him to take appropriate steps to reduce and if possible to reverse the growth of administrative expenditures. In line with that decision, the Administrator, in paragraph 19 states that he has established as a target for the 1994-1995 core budget the absorption of cost increases in the headquarters core budget and in that portion of the field core budget related to the UNDP-financed programme. In this connection he estimates that the absorption of projected inflation and other mandated costs would require a volume reduction of some $30 to $40 million in the 1994-1995 biennium. To achieve this target, which represents at best a rough estimate at this stage, the Administrator states his intention to focus on the three elements listed in paragraph 20 of his report, i.e. the rationalization and cost-effectiveness of business functions and human resource aspects.

15. The Advisory Committee welcomes the efforts of the Administrator to further reduce administrative costs and will examine the extent to which he achieves his stated target in the context of its review of the 1994-1995 budget estimates.

16. That being said, the Committee has several preliminary observations with regard to the proposals of the Administrator. The Committee sees merit in exploring the concept of localization which is discussed in paragraph 22 (a) of his report. The Committee also is of the view that the concept of regional service centres discussed in paragraph 22 (b) is worth pursuing, provided that, as stated by the Administrator, this would not entail the introduction of yet another hierarchical layer. The Committee also cautions that if certain functions are relocated from headquarters to regional service centres, care must be exercised that duplicative functions are not, at a later stage, re-established at headquarters.

17. The Administrator also makes two proposals in the area of personnel administration which he believes will assist him in achieving the above-mentioned reductions. The first of these, as discussed in paragraphs 25-27, involves the introduction of a new form of intermediate contract for those individuals whose services are required for at least six months but not "in a continuing, career-oriented function". As explained in paragraph 27, this type of contract would utilize "cost-effective mechanisms of flexible pay bands and lump sum approaches to compensation and travel"; at the same time "the application of basic pay principles and provision of staff member status and proper social security protection (including pension fund participation) ensures the fair treatment of these employees".

18. The Advisory Committee notes that the arrangement "is designed to be, on the whole, cost-neutral in comparison with the existing regular staff member contracts as concerns the overall salary and benefit package"; however, there is a potential for reducing administrative overheads, which will need to be analysed in more detail once some experience is gained in the actual operation of this new format. As stated in paragraph 26 of his report, the Administrator intends to introduce this on a pilot basis in 1992.

19. The Administrator states that parallel work is under way in the United Nations common system and that UNDP has participated actively in the related consultations; in response to inquiry, the Committee was informed that UNDP has consulted with ICSC. The Advisory Committee notes that such action conforms with General Assembly resolution 46/191 which invited executive heads to consult the Commission and the United Nations Staff Pension Board before putting proposals relating to staff conditions of service to their respective governing bodies.

20. However, the Committee also notes that the same resolution, inter alia, reaffirmed the central role of the General Assembly with regard to the elaboration of the conditions of service for the United Nations common system as a whole and that of the International Civil Service Commission as the independent technical body responsible to the General Assembly for the regulation and coordination of those conditions of service of the United Nations common service. The Assembly also emphasized the importance of maintaining a unified common system and endorsed the efforts of the Commission to maintain the integrity and unity of the condition of service of the staff of the common system.

21. That being the case, the Advisory Committee is of the view that a decision on this matter should more appropriately be taken by the General Assembly on the recommendation of the ICSC, and that discussions should continue at the common system level.

22. The Administrator's second proposal related to personnel administration relates to post classification; specifically he proposes that in the period between budget submissions he exercise his authority to review and modify the grade levels for posts in the P-1 to P-5 range, on the understanding that this is the result of a thorough job classification review and that the aggregate effect of the changes in the classified level of posts is subject to a zero-sum limitation. In this connection, the Administrator explains in paragraph 32 that the zero-sum limitation "would apply either on a grade-by-grade basis, or overall in the P-1 to P-5 range, provided there are no financial implications".

23. According to the Administrator, the advantage of this arrangement is that it allows a dynamic evolution of the organization of work and that it recognizes, in the design of jobs, a reasonable measure of flexibility for management to respond to such changes between two-year cycles while still guaranteeing against any unwarranted upward tendency in the overall grading of posts. Notwithstanding these arguments, the Advisory Committee was not convinced of the need to institute such arrangements at this time; in this

connection, it recalls that in its resolution 46/185 B, section II, the General Assembly requested the Secretary-General to review and develop procedures and norms, including workload analyses, to justify the creation, suppression, reclassification, conversion and redeployment of posts and to submit a report with proposals through the Advisory Committee to the Assembly at its forty-seventh session. In the opinion of the Advisory Committee, the Governing Council might benefit from the proposals contained in that report; it therefore recommends that a decision on the Administrator's proposal be deferred at this time.

24. The second goal on which the Administrator's budget strategy for 1994-1995 is based is, as mentioned above, increased transparency regarding the nature of the services rendered by UNDP field offices to non-UNDP-financed programmes and the associated costs thereof. In this connection, the Administrator, in paragraph 37 of his report, recalls that in its decision 91/46, the Governing Council "requested the Administrator to review the cost elements charged to the UNDP budget not related to the delivery of the indicative planning figure (IPF) programme as well as costs incurred on behalf of UNDP by others and to provide an analysis of appropriate sources of funding for these elements".

25. That being the case, the Administrator proposes to collect more reliable data from field offices on the distribution of workload and to present the information collected in the context of the 1994-1995 estimates in a manner which will clearly identify costs not related to the delivery of the IPF programme. The Advisory Committee was informed that this was a presentational issue, i.e. the funds for each field office would still be allotted and managed as a lump sum, thereby avoiding a situation which, as cited in paragraph 39, would be administratively cumbersome and lead to artifical budgetary practices in field offices. With reference to the Council's request for an analysis of appropriate sources of funding for non-IPF-related workload elements, the Administrator proposes that the full cost be charged to UNDP but that the cost, as discussed above, be reflected separately and transparently. The Advisory Committee, bearing in mind the central coordinating role of UNDP, believes that this represents the most viable alternative to the question at hand.

26. As mentioned above, Governing Council decision 91/46 also requested the Administrator to review the costs incurred on behalf of UNDP by others; in this connection, the Administrator states his intention to consult with the specialized agencies (para. 43 of DP/1992/40). The Advisory Committee trusts that all concerned will undertake to implement this request. In this connection, the Committee also recalls that in its resolution 46/185 B, section IV, the General Assembly on its part requested the Secretary-General to undertake a review of the costs of services provided by the United Nations to activities financed by extrabudgetary resources and requested him to work in close collaboration with the Administrator of UNDP in the preparation of the report, taking into account paragraph 37 of Governing Council decision 91/46.

27. As mentioned above, the Advisory Committee welcomes the continued efforts of the Administrator to achieve further administrative reductions and it trusts that he will continue to explore additional modalities for achieving this goal. In this connection, the Advisory Committee believes that, notwithstanding the Administrator's conclusions in his report on the senior management structure (DP/1992/45) concerning the structured organization described therein, further consideration should be given to streamlining the top echelons of UNDP in a manner consistent with that recently effected by the Secretary-General at the United Nations.

28. In response to inquiry, the Committee was informed that a General Service recruitment freeze, along with a restrictive recruitment policy for Professionals was in effect in order to implement the 96 post reductions approved in the 1992-1993 budget. The Committee is of the view that thought should be given to extending that freeze. In this connection it notes that, given the use of the technology and computerization which UNDP has gradually been introducing, it should be possible to decrease the existing General Service/Professional ratio.

29. The Advisory Committee also recalls that the post reductions applied on the headquarters core budget of UNDP were not applied to Trust Funds. In its report DP/1991/62, the Advisory Committee questioned the Administrator's general decision not to apply post reductions to trust funds, particularly in view of the management consultants' statement that non-core and funds staff should be even more critically analysed vis-à-vis the streamlining of staff and that the greatest potential for streamlining can be found within the non-core units (para. 78). The Advisory Committee continues to believe that some reduction in the staffing of trust funds might be possible.

II. THE COMMONWEALTH OF INDEPENDENT STATES AND THE BALTIC STATES: WAYS OF ESTABLISHING A UNDP PRESENCE (DP/1992/51)

30. This report submits the Administrator's proposals for the establishment of a UNDP presence in the five countries granted recipient status by Governing Council decision 92/8 (the Baltic States - Estonia, Latvia, and Lithuania - and the Republics of Belarus and the Ukraine) and in the other countries of the former Soviet Union, which the Administrator assumes will acquire recipient status at the current session of the Governing Council. In this connection, the Advisory Committee notes from the Administrator's report on the senior management structure (DP/1992/45) the inclusion in the organizational structure at Headquarters of a Division for Europe and the Commonwealth of Independent States and understands that this will be reviewed in the light of the evolving situation.

31. The Advisory Committee notes that in addition to conferring recipient status on the above-mentioned countries, Governing Council decision 92/8 also requested the Administrator to submit proposals on alternative and innovative ways of establishing a United Nations presence including the possibility of

one or more UNDP or joint United Nations offices covering the region, with particular regard to cost-effectiveness. Finally, the Administrator was requested to consult with his partners in the Joint Consultative Group on Policy and with the Administrative Committee on Coordination on a coordinated approach to programme development and programme support in the region.

32. In paragraph 2 of this report, the Administrator notes that he has undertaken the necessary consultations; "furthermore, the Secretary-General sent a letter on 22 March 1992 to the Governments of Armenia, Azerbaijan, Belarus, Kazakhstan, Ukraine and Uzbekistan, informing them that 'the Organization is proceeding with the establishment of an Interim Office' in each of these countries and that he had 'entrusted the Administrator of UNDP and the Under-Secretary-General for Public Information with the responsibility to pursue the matter with utmost urgency'".

33. The Advisory Committee was informed that the Joint Consultative Group on Policy had endorsed the establishment of United Nations offices and that the ACC strongly supported the Secretary-General's initiative. As stated in paragraphs 4-5, UNDP has undertaken or is planning missions to three Baltic countries and six countries of the Commonwealth of Independent States; in addition consultations on the question of a field presence have been held with the five countries granted recipient status by decision 92/8. The Administrator notes that country-by-country analyses will be undertaken to determine specific programmes in the region; at this stage, the Administrator lists broad areas of assistance which are envisaged.

34. In paragraph 7 the Administrator states that in those countries in which integrated United Nations offices would be established, the functions would include public information services. The Advisory Committee points out that in so far as public information services are involved, the approval of the General Assembly is required. The Advisory Committee also is of the view that although initial consultations may have taken place, much remains to be done in order to ensure a coordinated approach to programme development and programme support in the region. In other words, the whole concept of an "integrated" approach should be, in the Advisory Committee's view, better defined and additional information provided to demonstrate the extent to which various entities of the system propose to implement such an approach.

35. The Administrator discusses the proposed field structure which he envisages in paragraphs 10-16 of his report, stating that within the framework of an integrated United Nations presence, he recommends that the basic UNDP structure in the region consist of one international senior staff member per country (supported by additional expertise in the manner described in paragraph 11), with the minimum office logistical support required and access to a wide-area communications network (para. 10). At the same time he states that he is examining a "business centre" (subcontracting) concept as a possible approach to servicing the logistical requirements of the United Nations system in each of the countries concerned, in terms of office space, document processing, transport and communications. In the meantime, he recommends that UNDP representation be given the minimum logistical support necessary.

36. With regard to administrative functions which are specific to UNDP and could not be subcontracted under the business centre concept, the Administrator states that the establishment of one or possibly two administrative services centres in the region is being studied. As explained in paragraph 14, such a facility would be entrusted with most of the administrative functions normally performed by the traditional UNDP office.

37. Notwithstanding that the above studies have yet to be completed, the Administrator has, as indicated in paragraphs 20-21, submitted cost estimates for the start-up and recurrent costs to UNDP through December 1993, i.e. an average start-up cost of $100,000 per country, and an average yearly cost of $300,000 per country, comprising $150,000 for the head of office and $150,000 for operations, including travel and telecommunications. On that basis, the Administrator estimates the total net cost through 1993 for all 15 countries at $8.25 million. The Advisory Committee points out that should not all of the 15 offices be opened and operational as soon as anticipated, the estimate would be reduced.

38. The Advisory Committee sought additional information regarding the cost estimates and was provided with a breakdown of both the gross and net yearly cost. In this connection, it notes that the net figure of $300,000 includes an amount of $65,000 as that office's contribution towards the cost of the regional service centre; i.e. the estimates assume the implementation of this concept. The net amount of $300,000 excludes the cost of two local Professional and two local General Service posts, the related cost of which would be covered by the host government. The estimate also assumes that rental of premises will be covered by the host government.

39. The Advisory Committee notes from paragraph 21 that the Administrator expects that after 1993 the cost of these offices would fall as extrabudgetary funding takes over an increasing proportion of the management cost. In this connection, the Administrator envisages six sources of funding for the proposed field structure which, as shown in paragraph 19, include not only the UNDP core budget and direct contributions to local office costs by recipient countries, but also reimbursements by other entities for services performed on their behalf, including from the regular budget of the United Nations, as appropriate, and specific contributions made by donors in support of the field structure.

40. With regard to the latter, the Administrator states in paragraph 22 that he proposes to offset "a large portion" of the $8.25 million with any income received to this effect through special contributions. The Advisory Committee was informed that to date no such contributions had been received. The Committee also notes that the extent to which the offices will be funded from the sources listed by the Administrator, including the regular budget of the United Nations and recipient country contribution remain to be worked out.